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TO RUEHC/SECSTATE WASHDC 7538
RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUCPCIM/CIMS NTDB WASHDC
RUCPDC/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEHJO/AMCONSUL JOHANNESBURG 5984
RUEHTN/AMCONSUL CAPE TOWN 3795
RUEH DU/AMCONSUL DURBAN 8462

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SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA
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SIPDIS

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2007 ISSUE

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¶1. 1. (U) Summary. This is Volume 7, issue 01 of U.S. Embassy Pretoria's South Africa Economic News weekly newsletter.

Topics of this week's newsletter are:
- New Trading Year Opens with JSE Record High
- SA Ties Up Missile Deal with Brazil
- Oprah Opens School for Poor Pupils
- Portfolio Investment in SA at Record Level
- Mining BEE Deals Slow Down
End Summary.
New Trading Year Opens with JSE Record High

¶2. (U) The Johannesburg Securities Exchange (JSE) continued its bullish trend, with the all-shares index closing at a record high of 25,156.71 on the first trading day of 2007. The JSE is well above the 24,000 level of just one month ago. Experts cite firming commodity prices on the back of a weaker dollar, as well as investor confidence in emerging markets, as the reasons for the recent upward jump in the share index. However, the all share index ended 2.21% lower on Wednesday as profit-takers took money off the table. (Business Day Jan. 3, 2007)

SA Ties Up Missile Deal with Brazil

¶3. (U) A government-to-government agreement between SA and Brazil has been signed for a joint venture between Armscor, Denel and the Brazilian Air Force for the development of missiles. Brazil will commit \$52 million to the project, which will be led by Denel in collaboration with its Brazilian counterparts. Denel will develop its A-Darter short-range air-to-air missile from a prototype to an operational system. According to a Denel spokesperson, the agreement intensifies missile co-operation with the Brazilians, who opted for Denel as its partner because of Denel's proven capability in the missile field. Denel hopes that other projects would flow from the missile agreement. (Business Day, Jan. 3, 2007)
Oprah Opens School for Poor Pupils

¶4. (U) Oprah Winfrey opened the Oprah Winfrey Leadership Academy for Girls near Meyerton, south of Johannesburg, on January 2. Winfrey's school is the culmination of a pledge she made to Nelson Mandela six

years ago. Winfrey has spent more than \$40 million on the project, which this year will house 152 girls from families whose income is less than R5, 000 (\$720) a month. The star said that she wanted to provide each girl with an environment where they were "consistently inspired" and could overcome the legacy of their disadvantaged births. Winfrey has been involved in every detail of the school, from choosing the color of the bricks to making sure that the dormitory light switches can be reached from the girls' beds. Winfrey brought Joan Countryman, who ran the Lincoln Rhode Island College in the U.S., out of retirement to run the school for a year. All the other teachers are South African and the school will follow a curriculum closely aligned to the South African curriculum. (Business Day, Jan. 3, 2007)

Portfolio Investment in SA at Record Level

¶5. (U) Foreign investment in South African stocks was at record levels for a second year in a row. According to the JSE, foreign ownership rose 47% totaling R73.7 billion (\$10.5 billion) in 2006. In total, foreigners purchased R480.8 billion (\$68.7 billion) and sold R407.1 billion (\$58.2 billion) of South African shares. Heavy government spending in preparation of the 2010 World Cup will likely spur further foreign interest in South Africa. The U.S. is the largest portfolio investor in South Africa, accounting for \$34.5 billion or 42% of the portfolio investment as of December 2005. The U.S. is the second largest foreign direct investor in South Africa after the United Kingdom. As of December 2005, the value of U.S. FDI in South Africa is \$5.1 billion, accounting for nearly 7% of total FDI. (Business Day, Jan. 4, 2007, SARB Quarterly Bulletin)

Mining BEE Deals Slow Down

¶6. (U) The pace of black economic empowerment (BEE) deals in the mining sector slowed in 2006, with a value of less than R10 billion (\$1.4 billion) compared with about R20 billion (\$2.8 billion) in 2005, when the biggest companies concluded empowerment transactions.

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According to research group Empowerdex's mid-year progress report on BEE among JSE-listed companies, the resources sector has concluded a total of R51.5 billion (\$7.4 billion) of empowerment ownership deals to date, and only about one-third of resources companies have not concluded any empowerment deals at all. A few of the major companies are believed to have more empowerment deals in the pipeline, which are likely to be announced this year. These include Anglo Coal, BHP Billiton's Ingwe Coal, Samancor Manganese and Anglo Platinum. Mining companies committed themselves in the 2002 mining charter to bring in 15% black equity by 2009 and 26% by ¶2014. Compliance with the charter was incorporated in the Mineral and Petroleum Resources Development Act, introduced in 2004, which revised the way in which mining rights were granted. The necessity of complying with legislation gave companies a strong incentive to seek black partners and most of the activity took place in 2004 and ¶2005. (Business Day, Jan. 4, 2007)

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